

## An Article of Interest A check shows you really mean it

Sure, a house is a big purchase, but you might be surprised that you'll need a lot of money before you buy anything.

Before you hand over a down payment or sign mortgage papers, you write an "earnest money" check to the seller simply to impress the seller with how eager you are to purchase the property. The money compensates the seller for entertaining an offer and demonstrates the buyer's serious intent.

"Some people don't find out about it [earnest money] until they have to put the money up, and they just don't expect to write a check for that amount," says Salvatore Fragale, a broker with Fee Simple Realty, a Chicago firm that specializes in services to owners selling on their own. Now that mortgages with very low down payments or none are common, some plan on buying without much upfront cash. Still, buyers usually offer at least a modest amount in earnest money.

"I used to see people put up 10 percent of the purchase price in earnest money, but now there is no typical amount. It's whatever the buyer is willing to put up and the seller is willing to accept," says James Rudolph, a broker with Ebony Real Estate Inc., Chicago.

While earnest money amounts have trended downward, real estate agents say that if you are bidding on a hotly contested or expensive property you may need to write a substantial check to win the home. Moreover, when you submit a purchase contract that's weakened by many contingencies, submitting ample earnest money helps bolster the offer.

Your real estate agent, if you are using one, should warn you to be prepared to write an earnest money check, says Connie Conway, vice president and director of education and training for Koenig & Strey GMAC Realty. Some buyers who are selling their home to buy another mistakenly think they can borrow on their equity for earnest money for the next purchase. However, lenders don't grant equity a line when a home is up for sale, Conway says. Opening an equity credit line before putting a house up for sale is essential for those home seekers.

If you're a first-time buyer, you might rely on relatives or friends for a loan or gift of cash, or withdraw money from your 401(k) retirement account, says Fred Gillick, a broker with Gillick Realtors, Park Ridge. Your earnest money is credited back to you at closing, earmarked as part of the down payment.

If you ask a lender to prequalify you for a mortgage before you begin home shopping, he or she probably won't discuss earnest money but, instead, focus on how much of a down payment you'll be making and where that money comes from, says Rob Maxey, a mortgage consultant at Revere Mortgage Ltd., Northbrook.

Ultimately, a buyer negotiating with a seller decides for himself or herself how much earnest money to include with the offer. But, like tipping a waiter or hairdresser, amounts below certain thresholds serve to insult rather than impress.

"On a \$100,000 condominium, earnest money could be \$500 to \$1,000," says Faith Martin, an agent with Prudential Clark & Holm Real Estate, Downers Grove. But on homes costing well into six figures, extending "anything under four figures doesn't seem very earnest," says Robert Glover, an agent with Coldwell Banker Residential Real Estate, Wheaton.

"Sometimes, dollars are offered in two stages, with one check clipped to the contract and another promised within days of the seller accepting the offer," Conway says.

On new construction, though, a builder is likely to ask for a set amount, says Bob Horner, co-principal of Winthrop Properties. There can be leeway, however, for a buyer who can show a commitment from a lender who's offering him or her a very low down payment loan, Horner adds.

Your earnest money is held in escrow by the seller's agent or attorney. It's returned if the seller rejects the contract or if a specified contingency nullifies the deal, with you and the seller required to sign off on the return.

If you simply change your mind, however, you risk forfeiting the money.

But buyers rarely lose it all, instead agreeing with the seller on at least a partial payback, says Gerald Marcus, a Schaumburg real estate attorney.

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